KAR Auction Services

November 29, 2016

Doug: I'm real excited to have KAR Auction Services with us. It's a unique company, has a very unique product offering. It's probably the best in the business at what it does. With us today from the firm we have Eric Loughmiller, the EVP and CFO. We also have Mike Eliason who is the Treasurer and IR. We're just going to take the 33 minutes, take a little Q&A at the end, but please let's make it interactive. I think that will be the best for the purposes of the meeting. I'll turn it over.

Eric Loughmiller: Thanks, Doug. I'm going to go through this fairly quickly and offer more time for Q&A. We've been out in the market quite a while. We've been a debt issuer since 2007. So a lot of people know a little bit about the business, but I'll start by just introducing us at a high level and then we'll turn to a few specific issues and then get into questions I hope with about 15 minutes or a little less to go.

So KAR Auction Services is a business services model. We provide an exchange where buyers and sellers come together to trade vehicles for cash. And I'll get into the different segments, but the bottom line is, it's an attractive financial model because we don't take risk in the principal value of the vehicle. We're getting a fee from each of the participants in the transaction.

We have a largescale operation, operating over 300 auction locations throughout the United States, Canada and Mexico, and now we're in the UK, so we've moved overseas. We're a leader in our core businesses, either the number one or number two player in all our major business units. We have multiple avenues for strategic and organic growth with a mix of businesses that sometimes offset each other. So we've gone through a cycle in the auto industry recently that tested everyone and we had amazing resilience as we got through that cycle. And we have a very experienced management team. Most of our senior leadership team has been together since 2007 and we've added a couple of people to that team. We've turned over only one or two, but those that are new to the team were actually in the business going back to 2007 in the number two slots of those businesses, so we've got a team that's very experienced with the businesses we operate.

Here are the three businesses. ADESA is a used car auction business, so these are cars that you see going up and down the road. We operate as a number two player in the market and the largest participant in our marketplace is Manheim which is a subsidiary of Cox Automotive, a private company based in Atlanta, Georgia. About 40% of our cars are sold online. So I talk about this large network of auctions, but we have a large participation in the online auction venues. Some of those are bought from the physical auction sites. Others are bought in our online only venue which is powered by Open Lane Technology.

IAA or Insurance Auto Auctions is our salvage auction business. Here, we're selling cars that are damaged, typically in car accidents, it's total loss vehicles. So when an insurance company declares your car a total loss, what do they do with the car? Well they end up taking title and then selling that car as an offset to the claims cost when they wrote you that check for the total loss. What's really interesting about this marketplace is about one out of six insurance claims result in a total loss. So what does that mean? That means for every six accidents you saw on your way into work last week, five of those cars were getting repaired, and one of those cars was a total loss. That one car was supplying parts for those five other vehicles.

The lowest claims cost that the insurance companies can manage is through the use of aftermarket recycled parts. And they do that because they are OEM specified parts without having to pay the heavy cost of the supply chain, of the manufacturer, of OEM replacement parts.

We are a coleader in this industry and our primary competitor is Copart, a public company that operates solely in the salvage industry and not in these other businesses I'm describing to you right now. Over 80% of the vehicles at Insurance Auto Auctions are processed for insurance companies. That's less than our, greater than our competition, and actually it's quite a bit over 80%. Less than 20% are other sources and the primary other sources are charity. Cars donated to charity are sold at salvage auctions as an "as is" vehicle, then they have no responsibility for the quality of the car. And also, low end dealer cars, when you see that ad that says I'll give you $500 for any car? They may give you $500 and they're not selling that car retail, they're going to bring it to a salvage auction, because there's a very good chance that $500 vehicle was worth over thousands of dollars for the parts. Because it still operates and those parts, many of them, are useful for a long time.

The third leg of our stool is AFC. It's a floorplan lending business where we're focused on providing funds to the independent used car dealer. The independent used car dealer. So if you're a franchise dealer, don't call us, because we figure if you're a franchise dealer, you have a captive finance company. And if they're turning you down, we're not smarter than they are, you have access to that market. We're going to the independent used car dealer who does not have access to the captive finance company.

One of the independent used car dealers is CarMax. They have access to funds through the capital markets, so we don't floorplan them. We are floor planning those that have limited resources and it allows us to provide liquidity into the marketplace. We do not view this, while we report it as a separate segment, we view this as an additional offering to the dealers in the lanes to provide liquidity so they can buy more vehicles, pay for them as they retail the car. And I'll get into the terms of this on a later slide.

We are number two. Manheim owns a subsidiary called NextGear Capital, so the top two players, and really the only two substantial players for the independent used car dealer, again are the ADESA business and the Manheim business through our respective floorplan lending businesses.

So what makes us so exciting is the fact that in North America, and we focus on the US and Canada, although we are in Mexico, these numbers are US and Canada, we love to get a different car. Sometimes a new car, sometimes a used car, we love to trade. So there are, now in North America there is nearing 20 million new car transactions a year putting more cars on the road. And there are about 13 million, on the far right of this chart you see in the little blue notation, 13 million units go out of service. Of that 13 million, about 4 million or a little more right now, end up at a salvage auction. So those are total losses, charity cars and low end dealer trades that they're not putting back through the retail market.

There's about 8 million to 9 million that are not reregistered annually that are sitting, and if you live in the Midwest like we operate in Indiana, as I drive from Chicago to Indianapolis, they're along the creek beds, you see them off the road, they just sit there and rot. But those cars are out of service as well and just not doing anything with it. So this is a viable market. It can grow. It can grow organically. There are more cars available to us, we just have to be careful that we don't disrupt the balance of supply and demand by going and getting those cars too quickly.

Then within the carpark, the cars that are operating on the road, 42 million change hands annually. There's 42 million cars. That's not the new cars, this is the used car transaction. Where do they go? Well 12 million are sold consumer to consumer. So when you got to Craig's List, or when my son or daughter goes to Craig's List, because I've never been to Craig's List, I've heard it's

dangerous. They tell me it's not. And you go and meet somebody through Craig's List, you then go and transact directly with them. Craig's List is not standing in the middle. eBay Motors, you can list your car on eBay Motors. eBay Motors will not handle the transaction for you, you probably don't know that, because of the chargebacks on the credit cards. They don't want the exposure to the chargebacks. So they will introduce you, you pay a fee for listing, and then you will meet the other consumer and you will exchange check for title and car at the right time. That's a private transaction. There are 30 million transactions that are done through the dealers. Those are the national retailers that we all hear about. Group One, Penske, Asbury, large, independent used car dealers like CarMax.

And then 35,000 to 40,000 Joe's Auto Sales. The independent used car network is very large. There are about 17,000 to 17,500 franchise dealers and there are almost 40,000 independent used car dealers. The top 100 sellers of used cars in the United States make up less than 3% of used car transactions. The 100 largest. That includes CarMax. So it's a very fragmented industry that many of us in this room don't think about on a day to day basis. There are little car dealerships everywhere.

How they get their inventory is very interesting. About 20 million of that inventory they get in trades where they're going to take a trade or they're going to buy a car from a consumer and they're going to directly retail that vehicle. But over 10 million, and the next chart will tell you how many come through our industry where they use the wholesale auction to exchange because the car is not where it's going to retail. And as an example, I'm going to use luxury cars, because we're in Boca Raton, I'm thinking here's more luxury cars down here. When you take that BMW and decide you want to have a Mercedes and you trade in your BMW 7 Series for the Mercedes 500, the Mercedes dealer is not likely the one to retail a BMW on his lot. Because he is not trying to convince a customer that BMW is the car that they should have for the rest of their life.

So on the luxury brands you see it, you'll probably see some of it between Ford, Chevrolet and Chrysler, at least on the sedan level. Probably less brand loyalty on the truck level. Because there is such a shortage of pickup trucks. A Ford dealer takes a Chevy in trade, he's probably going to retail the Chevy right now because there is such a shortage of pickup trucks in the used car marketplace.

But you see that exchange. It could be that I'm a Ford dealer, I've got five Ford Fusions on my lot. I take three in trade, I can't retail 8 Ford Fusions over the next 30 to 60 days. I'm going to take three of those Fusions and sell them wholesale outside of my marketplace to a dealer that will have a different market looking at it because I'm trying to get everybody to fall in love with Fords. So it's aged inventory, it could be any number of things that come to the auction.

So that is our industry. How do we make money doing this? We collect a fee from the buyer, we collect a fee from the seller. We collect a fee if you want terms. Our average DSO is 5 to 7 days long because you cannot have that car on your retail lot until you pay me for it. So the buyers buy the cars and they cannot take it unless they have an approved and verified floorplan financing line where I know I'm getting it from a floorplan lender, including AFC, or until they cut the check and I clear funds and give them the car.

The seller pays us fees for selling the car, typically on a fixed fee basis not tied to the value of the car unless it's a dealer selling a few cars at a time. But they also, the seller is a source of a lot of our ancillary services revenue. The revenue I get for other than auction. I get reconditioning, body work, and all the different things I can do for the car. So we collect fees for everything we do in all of our businesses. In the Insurance Auto Auctions business, we typically have very low ancillary services. It's really just buy and sell fees and that's about all we get.

The AFC business, we collect fees plus an interest spread. The fees are the primary driver of

revenue in our floorplan lending business which is why it's such a profitable business and has such high margins. It's the fee, you pay the fee for a 30, 45 or 60-day loan and if you sell that car in 3 days you have to repay us and there's no rebate of the fee based on time. Yes, you avoid interest charges because you only had three days of interest versus what you signed up for, but the fees are fixed and that's drives the value of that transaction up.

Why is this an exciting story and has been at least in the equity markets? And also, earlier this year we refinanced a significant term loan B facility and it's because we're in the middle of a cyclical recovery. These are the auction volumes. Yes, we had to live through 2008 through 2013. In 2008 we saw a disruption of the entire automotive sector, disruption of the financial services industry, and the good news is, that hits us with a little bit of a lag. These are the used car, the North American whole car auction industry volumes. There's a little bit of a lag so we can adjust our cost structure, we can get ready for it.

Equally though, when everything started feeling better in the auto industry, which was 2010 into 2011, you see we bottom out because we also lag the recovery. So here we are in 2016 in the middle of the recovery, not at the end of the recovery. And I know there are different views on what new car sales are going to be in 2016 and into 2017, but clearly we feel like we're at the top of the market at best and perhaps even under some pressure that that new car sales number is likely to come down a little bit.

We still have three plus years of growth because these cars that were leased are coming back. A big driver of the cyclical recovery is the leasing cycles. We have moved from a low point in 2010 where the average new car transaction, less than 13% of those transactions were lease transactions, to now over 30% of all new car transactions are leases. And the great thing of a lease is their average term is three years. That means three years later that car comes back as a used car owned by a captive finance company who cannot retail it, a big user of the wholesale auction industry.

Here are some more fundamentals. The physical revenue. So as cars come back to physical, and these leased cars, they're the biggest user, driving my revenue per unit up quite substantially as you can see the chart in the top right. You can also see the industry annual new vehicle leases in the bottom left. This is what I'm talking about. We're gradually increasing, and it's continuing to increase, the number of cars purchased through a leased transaction.

And then equally important, as you go down to the bottom right, in that far-right bar graph is a 9-month year to date number. As you can see, it's revenue per unit. We're coming off of a peak of ADESA online only volume, 2011. Meaning those were 2008 sales that were returned three years later. And the primary user of the online only venues, the online only is the leased car, because it has a condition report prepared at the end of the lease.

So here you see revenue per unit growing and vehicle sales growing. I mean ARPU is not growing much, it has a little bit of growth in it, but here, these are the leased vehicles. And we have very significant market share. We are the primary provider of private label online only venues for the captive finance companies. We represent substantially all. We represent every one in the United States except Nissan Infinity who is handled by our largest competitor, Porsche, handled by our largest competitor, Mercedes Benz and BMW do their own program internally on the private label. They use the auctions, but not for the sale directly to their franchise dealer. The focus here is moving the cars to their own franchise dealers in a private label transaction.

Speaking just a few minutes about salvage, this is a steady performer. It's shown outstanding growth over the last 5, 6 years, but it's leveling off a little bit. It's a mature marketplace. Aftermarket recycled parts are high in demand. But I have to have an accident to create them. I can't just manufacture them. So there's a little bit of balance between supply and demand here and it's really hard for them to make, to have more product than they have now. Because the carrying

costs are very high for the LKQs of the world. Many of you probably know LKQ, Like, Kind and Quality, based in Chicago. They are a large distributor of aftermarket recycled parts in the United States. And that type of company, and also you've got Pick & Pulls, people are going and finding these parts. Because if you have a 10-year old Ford Taurus and you want to fix it, you cannot find a manufactured part for it. They quit manufacturing them. You'll have to go find a recycled part for that 10-year old vehicle. And obviously with the average age of a car on the road right now being above 12 years, over 12.5 years old, there's a high demand for these recycled parts.

Increasing alternative parts utilization, so collision repair. The only way the insurance companies can keep the claims costs down is by using recycled parts. So that's what their focus is. How many recycled parts. So you see the steady increase. What happened in 2008 to cause this line to go straight up that you see in the bottom right chart? It was a ruling by the Supreme Court involving State Farm Insurance where a family who lost their life, their estate sued State Farm because they'd used aftermarket recycled parts in the repair of the vehicle. The Supreme Court threw it back and ruled that the part was actually higher quality than aftermarket manufactured parts and it was not the mandate to use recycled parts. Here's the irony in all that. Since that lawsuit was filed in the late 90s, State Farm is not using aftermarket recycled parts. In 2008, with that ruling, virtually every insurance company put in their policies that collision repair shops have to use aftermarket recycled parts if they're available because it's the only way to maintain lower claims cost.

This is not a quality issue. These are OEM specified parts. They are the least expensive, highest quality part that anybody can use in a vehicle. And that's what the Supreme Court proved through the lower courts is the evidence was it was a high-quality part with a failure rate significantly less than a manufactured aftermarket part. So I'm not a lawyer, so this is not a legal briefing, but I want you to see, why did it suddenly jump? It was because of a ruling that did not hold the insurance company liable for the mandate to use a recycled part.

So here we go. If State Farm, which is the lightest user to this date of aftermarket recycled parts, were to open up, you would probably see this utilization go up further as they're the largest insurer of automobiles in the United States. And they do not use aftermarket recycled parts unless it's the only part available. I can tell you that, I'm a State Farm customer, being from Illinois.

AFC, our floorplan lending business, here's some metrics. 60-day loans is the average term. It turns quickly and it's a really strong business as a service to the auction customer. What are the opportunities? Well the whole car recovery will continue, we'll see continued salvage market growth because we're only processing a little over 4 million of those 13 million cars. And as demand for aftermarket recycled parts continues to grow, we're looking for sources of vehicles so that they can be deployed into the collision repair industry.

We have a disciplined capital deployment that provides long term accretive growth. We just announced a transaction two weeks ago, buying a Flint auto auction, an independent auto auction in Flint, Michigan. And we were able to buy that business at about a 4.5 times multiple and we're obviously valued at something significantly greater than that. So we're able to go out there because we are the acquirer of the independent auctions.

Our competitor has 45% market share or so and has all kinds of restrictions on its acquisitions, because they're a dominant player in most markets. So we typically are buying these auction businesses without significant competition in the bidding process. And now we're expanding into new markets including overseas. Over the past 12 months we have acquired businesses in the UK and we're taking our technology, we're going with a more asset lite approach is our theme. Online only auctions are important to us. It doesn't mean we won't put brick and mortar auctions over there at some point, but to date we're really trying to do it through our technology offerings because there are major players in some of those markets and we want to be the disrupter. And the

best way to disrupt is in an asset lite model where you're not adding zoning and not adding issues with building infrastructure and using the technology that we've already developed and have a great reputation for using in the United States and Canada where we're the leader in the online technologies.

Our challenges really come down to things that you're hearing about I'm sure throughout this conference. What's happening in the auto sector, what's happening in the retail sales. Consumer credit, people ask me, what do you watch as an indicator for your business? It's consumer credit. It's not manufacturing, it's not used car values. The bottom line is, if we're willing to loan people money, especially people that can't afford the car, we're going to sell more cars. That subprime lending is really important. It doesn't mean that the market goes away when they tighten up on it, it means the prices drop so the car becomes affordable. And I am the one that's agnostic as to the value of the vehicle. If I weren't agnostic, it would be a totally different scenario. I don't really care what the car sells for, I just want cars to move. That's totally different than the retailer who is trying to make a margin on the transaction and having those pressures.

Our revenues are challenged because of used vehicle price. We're tied to some pricing schedules. Used vehicle prices drop, the value of the transaction becomes more difficult for us to extract the same. We've been successful in raising fees to offset it, but it's not always guaranteed. And foreign currency. In the salvage business, up to 30% of the vehicles leave our country as damaged vehicles. And to the extent that the dollar strengthens, it weakens the buying power of the foreign buyer who is in many case repairing that car and putting it on the road. And Mexico, South America, Middle East and West Africa are big regions for us to ship cars to.

And then there's always pressure on margins in any business that makes this much money but has the ability to be commoditized through other offerings. So we really are focused on that and increasing our margins. Lately we've been investing. As we've grown the company, we were a little but under invested in some support infrastructure, so our S&A has grown a little bit. It doesn't mean we haven't expanded our profitability, but perhaps there's more leverage in the business when we get through this period of investment and building up a support infrastructure for our disparate businesses that are all over the world. So we think there's opportunity in the future for greater margin expansion, but it's a challenge for us to maintain our margins while we're getting there. So a lot of investors that follow us know about that.

On the financial overview, I'll let you go back -- I really want to just focus on our leverage. We're about 3.1 times. This is not proforma. We did $355 million in acquisitions in the first nine months. We did another $76 million already this quarter. And I have not proforma'd the performance of those acquired businesses in here. So on a debt ratio basis, if I implemented a proforma, it would be less than this. But you know what, we're giving you the actual leverage based upon our current performance. By the end of the year we would expect this number to decline a little bit because we are adding another quarter of each acquisition's performance. And our target leverage is three times or less.

This is our entire capital structure as you can see, or at least the debt structure portion of it. And term loan B2, term loan B3, were both refinanced in March of 2016. So this is current pricing for us and we're very pleased with our debt structure. It's flexible. Our current focus is not repaying debt other than through required principal payments. It's really to deploy capital for strategic growth and provide an adequate return to our shareholders. We do allocate 45% to 50% of our free cash flow to a recurring dividend and that number has been increasing. We've increased it effective with the next quarterly payment in January. But it's at $0.32 per share per quarter, up from $0.29 as the previous level. But we're growing that and the remaining cash flow right now we're deploying for strategic growth or share repurchases to provide the return to the shareholders.

Here's our capital allocation framework. There's materials up here if you want to take it rather than

write all these notes down, but this is how we've been utilizing our capital. So I'll close and turn it -- I only left you 8 minutes for questions, but I talked fast for you. So any questions out there, anything you want to know about our business? Yes? We have a mic for you

Unidentified Participant: Can you provide an update on the IAA response to the flooding in Louisiana and Hurricane Matthew? And from your perspective, I know in the Super Storm Sandy you were kind of constrained because of the land and the unique storm that it was, where it hit, if you feel like that will be a profitable exercise for you guys? Or is that just something you had to do because of the contracts you have in place?

Eric Loughmiller: Well the latter is true, it's something we have to do, but it's not hurricane -- it's not Sandy. So generally speaking, these are not negative events for us. They tend to be positive. The only thing that's different about what we call a CAT, a catastrophe, is we incur the cost ahead of the revenue. Because we have to go find land, we've got -- in Louisiana, our people that are down there have been down there a long time. And they said that the flooding in Louisiana, which was not a named storm, so it wasn't an event, was more damage than they saw in Hurricane Katrina. It's concentrated in such a small area, the flooding was devastating, and there was only one road in and out of that parish. And they said it was far more damaging, it just wasn't as expansive.

So there we incur the cost upfront. We had to take the cars out. The towing was very similar to Hurricane Sandy. Long tows to out lots. But the land costs and all the transaction costs are much less. So on Louisiana I would expect to be neutral to probably a little bit profitable. We don't know until it's over. We're just really beginning to sell those cars because of all the title processing, trace ownership.

Matthew moved north which got it out of Florida where their land is a bigger issue than when you get up into the Carolinas, Georgia and actually Virginia was harder hit than anybody thought it would be because it wasn't supposed to -- remember, it was supposed to swing back out over the ocean and maybe come back to Florida, it decided Virginia -- I think they thought hey, we've got a White House, let's see how close we can get to it. But it moved up the coast.

So there -- but there's more land. The east coast has a little more land. Florida is too concentrated because you've got ocean, condos, everglades, condos, Gulf of Mexico. So by moving north, it actually helps us a little bit and the cars are the same damaged cars, they're flooded vehicles. Flooded vehicles tend to be high value. Salt water flooding not so much. Fresh water flooding inland, the cars are clean and the parts are very usable. So I would expect over time a positive contribution from those catastrophes of the hurricanes. But again, we incur a little more cost upfront and the revenue and the profits come a little bit after. And we don't defer the cost. We recognize the cost as a period cost.

But I think all the events of this year, I'm not seeing as a drag on our performance profitability wise.

Unidentified Participant: I had one other follow-up. This past quarter you took a charge on AFC to write down or I guess to add to your reserves.

Eric Loughmiller: Let me clarify, our reserves only went up $250,000. These are actual losses. And I've been spending all day -- the portfolio turns every 60 days, so within the quarter, I know whether the loans are collected or they're bad. So these are actual losses, not provision for future losses. And I've been clarifying that because it turns so quickly. So that's a clarification. Now I'll let you go on.

Unidentified Participant: I was wondering if you've changed your underwriting parameters given that you felt like you were

kind of getting crowded out by other lenders that were (inaudible).

Eric Loughmiller: No, in fact, we're not getting crowded out. We're actually stopping supplying additional credit and they are seeking other forms of credit because they want to grow perhaps more than we think they should grow in the current retail environment. And I think the market has proven us probably more right in that case because retail -- in the first half of the year, retail used car sales for independent used car dealers, that's that market, was up 6% year over year. In the second half, it's been flat to maybe slightly down. So what's happened is, you've got a correction in the market.

You're absolutely right pointing out the losses are coming. Those that made the bets of growing their business, grew into a flat to down market, they're in trouble. They're probably using their capital to pay payroll, operating costs, and they get themselves -- and the losses that you saw in the third quarter, while they were only $8 million, up from $5.5 million the previous three quarters, or Q2, Q1, and Q4, Q3 of last year was only $2.7 million which was unusually low because it had been $4.3 million in Q2 and $3.5 million in Q1. It's because we collect them all so quickly. The bad debt is real, not provision. And the reserve has gone up $250,000 per quarter since the first quarter of 2015. So I'm not providing for future losses. I am raising that a little bit, but most of these losses are realized losses on cars sold out of trust. That means the dealer sells the car without valid title because I hold it as collateral in our business, and doesn't repay us. And we can't repossess the collateral. And that's when we have the losses that cause it to go up.

We're underwriting all along for a 2% loss. Let's see if I have it in here. Mike, I have all these cool schedules that he gives me. Here's the provision for credit losses across. And this is in the back of the materials that you have up front. It's a chart going back to when we put this company together in 2007, but it gave you at least an indicator. These actual credit losses, what's unusual is being at 1%. We're underwriting for roughly a 2% loss. Our standards have not changed, to your question, but what's happening is the market is returning to a more traditional retail market.

To be honest, if you opened a retail used car dealership over the past five years, you couldn't really screw it up. Used car prices were rising. Even if you made a bad pricing decision on buying vehicles, you probably could sell out of it without a loss. And now what's happening? The supply of vehicles is coming back up, used car values are dropping, and you're probably much more accountable for your acts as a used car dealer. You better know what you're doing. It's not like the movies tell you where just sell them and you'll make money hand over fist. It's a little harder than that when the market flattens out. Pricing is starting to drop in the wholesale marketplace.

So we're comfortable at 1.5% to 2%. The loss in the third quarter was 1.8% of average balance. That is, since the beginning of 2015, I've been giving that number as kind of where it should end up. Perhaps it gets there more suddenly for the year. The first nine months we're only at 1.47% loss. We'll probably go a little above that -- the fourth quarter I said in my earnings call, looks very similar to the third quarter in losses. So it's not getting out of bounds, but it's moving. We did have $5.5 million for three consecutive quarters, so don't think the $8 million means $8 million, $12 million -- it doesn't typically move like that. Because the first half of the year is the strongest retail used car season and most of the dealers can survive the first couple of quarters of the year even if they're running their business on the edge.

We had a question all the way in the back?

Unidentified Participant: You had mentioned about international expansion. Could you just talk about some of the similarities and differences between the domestic and overseas salvage markets?

Eric Loughmiller: Yeah, the biggest difference that I see is overseas they're much more reliant on technology. And they typically sell the car on behalf of the consumer. In other words, overseas, most insurance companies do not take title to the car and do not sell the car for their own recovery. They give the

consumer a net check rather than giving them the total loss value. And they recover a portion of the claims cost. Which means you go at risk. So when I'm dealing with a consumer, I'm buying the car out at probably the value assigned by the insurance company. And I'm going to make my fees overseas, like in the UK, based upon the ability to sell that car at a higher value than what I paid the consumer.

So it is an at risk model compared to the US where it's an agency model where I'm collecting a fee from the buyer and the seller and not taking principle risk on the car. So the market is a little different, particularly in Europe which includes the UK. And it's really the at risk versus -- so the principle model they call it versus the agency model. They are more heavily weighted towards the principle model because the insurer does not pay the full value of the car. They net that and then tell the consumer how to recover the difference through a salvage auction.

The other thing that's a major difference is throughout Europe and the UK you do not see the use of aftermarket recycled parts. You see it by the do-it-yourselfer, but it's not a big part of the collision repair industry and so that's an opportunity in the future is if they start harvesting parts in order to repair these vehicles, there's a huge opportunity for that industry to add greater value to the supply chain.

We're out of time. Thank you for your attention today. I appreciate it. And have a good finish to the conference.